

NORTHEASTERN VERMONT REGIONAL HOSPITAL

EXECUTIVE SUMMARY OPERATING AND CAPITAL BUDGETS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2013

On behalf of Northeastern Vermont Regional Hospital (NVRH), I am pleased to present our operating and capital budgets for fiscal year 2013. These budgets were approved by the NVRH Board of Trustees on June 27, 2012. The following sections provide an overview of the FY 2013 budget and a review of projected operating results for FY 2012. A more comprehensive review of the fiscal year 2013 budget and a summary of our four year capital budget plan are presented in the final sections.

FY 2013 - An Overview

An operating margin of \$1,548,800, which equals 2.5% of total operating revenues, has been budgeted for FY 2013. On a budget to budget basis, total net patient revenues are projected to increase by 5.4%. However, when net revenues of transferred physician practices are excluded, the growth in net revenue, on a budget to budget basis, is only 2.7%. Operating expenses are budgeted to increase by 6.2% due to inflation, the transfer of existing physician practices, the addition of a full time primary care provider and an increase to the Health Care Provider Tax assessment. Excluding the costs associated with the transfer of physician practices and the increase Provider Tax Assessment, operating expenses are increasing by only 3.5%.

During fiscal 2013 NVRH plans to invest \$8,335,700 in capital projects, including \$1,600,000 to complete the Meditech Client Server platform upgrade and \$2,400,000 for a new Medical Office Building.

Fiscal Year 2012 – A Review of Projected Operations vs. Budget

Overview: An operating gain of \$1,170,500 is projected for FY 2012. This projection is \$253,100 below the budgeted operating gain for the year. The most significant cause of this unfavorable variance is the addition of a primary care practice in January, 2012. This practice is projected to lose approximately \$225,000 during FY 2012.

Operating Revenues: Operating revenues will exceed budget by \$129,200. Gross patient revenues will be unfavorable to budget by \$3,458,000. However, net patient revenues will be favorable against budget by approximately \$24,700. This inconsistency is due to a) change in payer mix as a higher percentage of the hospital's total revenues will be covered by private pay insurances and b) the benefit of Critical Access Hospital when patient volume falls short of budget as Medicare continues to pay its share of overhead costs when volumes decline.

Other operating revenues will be \$175,300 favorable against budget. This variance is a result of including a portion of EMR Incentive Revenues as operating revenues. All of the EMR Incentive Revenue was budgeted as Non Operating Revenues.

Inpatient volume for FY 2012, both admissions and patient days, will be under budget. The Blueprint program, which NVRH piloted for the State, has resulted in lower inpatient admissions and therefore, fewer patient days. This trend has been carried forward to the FY 2013 budget.

The Blueprint program has also affected outpatient volume, particularly lower utilization of the Emergency Department. Another factor contributing to lower than expected volume is higher out-of-pocket costs, co-payments and deductibles, to patients for diagnostic testing. Some patients are putting off or forgoing testing altogether as a result of the higher cost to them for these services.

Expenses:

Total operating expenses are projected to be \$382,300 higher than budget. The most significant reason for this variance was the transfer of a primary care practice to NVRH starting in January, 2012.

Non Operating Revenues:

Non operating revenues are projected to be approximately \$559,000 lower than budget for the year. This is due to a timing difference as a portion of EMR incentive revenues anticipated in to be received in FY 2012 will not be received until FY 2013.

Budget Year Ending September 30, 2013

Operating Revenues:

Net patient revenues are budgeted to increase by 5.4% from fiscal 2012 to fiscal 2013. The key factors contributing to this increase are as follows.

Rates charged for services will increase by an average of 6.5%. This will be accomplished by increasing hospital prices by an average of 7.5% and minimally increasing rates for hospital owned physician practices.

In January, 2012 four (4) primary care providers who were previously employed by a local Federally Qualified Health Center (FQHC) left that organization and began a new practice as employees of NVRH. During FY 2012, that new practice, Kingdom Internal Medicine (KIM), will generate total net revenues of \$551,000. NVRH has applied for provider-based Rural Health Clinic (RHC) Status for KIM. As a provider based RHC, net revenues for KIM will total \$1.1 million in FY 2013 and the practice will operate close to breakeven.

New patient revenues have been budgeted for a full time Ear, Nose and Throat (ENT) /Audiologist practice. This is a transfer of an existing ENT/Audiology practice that has operated in the St Johnsbury community for many years. Revenues for this practice were included in the FY 2012 budget, but for only a portion of the year. During FY 2013, net revenues for a full year are anticipated. NVRH and Littleton Regional Hospital continue their collaborative efforts to jointly operate this ENT/Audiology practice to serve both our communities.

FY 2013 net revenues also assume provider based RHC status for an existing OB/GYN practice. RHC status will increase net revenues on a budget to budget basis by \$75,000.

Medicare revenues assume continuation of current regulations for Critical Access Hospitals (CAH). Medicaid revenues assume continuation of current regulations. Medicaid payment increases totaling \$108,000 have been included in the hospital's net revenue budget.

The discount rates for commercial payers during FY 2012 have been used to budget FY 2013 net revenues.

Uncompensated Care:

FY 2013 uncompensated care (Free Care and Bad Debt) write offs, as a percentage of patient revenues, are expected to remain at FY 2012 levels.

Disproportionate Share Revenues:

The Disproportionate Share Revenue (DSH) paid directly from DVHA to NVRH is budgeted at \$1,349,400.

Other Operating Revenues:

Other operating revenues are budgeted to increase by \$544,400 from FY 2012 to FY2013. Most of this increase, \$450,000, will come from 340B retail pharmacy revenues. NVRH is partnering with Kinney Drugs and a local independent pharmacy on this retail pharmacy initiative. Additional Medical Home revenue for the Kingdom Internal Medicine practice are also included in the FY 2013 budget.

Operating Expenses:

Operating expenses are budgeted to increase by \$3,570,300 or 6.2%. The following table summarizes the operating expense increases from FY 2011 to FY 2012:

Description	Amount	% Increase Over FY 11
1) General Inflation	\$1,693,500	2.9%
2) Transfer of Primary Care Practice and full Time Status of Transferred ENT/Audiology Practice	1,464,200	2.5
3) Additional Primary Care Provider and Staff	261,900	.5
4) Provider Tax/Other	150,700	.3
Grand Total	<u>\$3,570,300</u>	<u>6.2%</u>

New or Enhanced Programs:

As previously noted, NVRH will add another primary care physician to the existing Corner Medical Practice. The St Johnsbury community has a severe access to primary care provider problem. Although a practice transferred to NVRH during the year, no new providers were added to the community. We anticipate a new full time primary care provider will join Corner Medical, which will allow that practice to open up to accepting new patients.

Net Operating Margin:

The budgeted net operating margin is \$1,548,800 or 2.5% of net operating revenues. This margin is slightly higher than past years as a result of including EMR incentive revenues. Excluding the one-time EMR incentive revenue, the operating margin is 2.1%.

Provider Subsidies:

During fiscal year 2013, NVRH will operate fourteen physician practices and a full time Hospitalist program. The total budgeted subsidy for these practices is \$882,000. The revenues and expenses are associated with fourteen physician practices are reported as Physician Office Practices. Expenses for the Hospitalist program are included under the Inpatient Acute – Other category. Expenses for the Anesthesia practice are included in the Anesthesiology Cost Center.

Non Operating Revenues:

Non operating revenues include \$479,000 from unrestricted income on invested Endowment Funds and a portion of the EMR incentive revenue.

We did not budget for any appreciation or depreciation in value of investments.

Capital Budget – FY 2013 to FY 2016:

FY 2013 Capital Budget

The FY 2013 capital budget totals \$8,335,700. Included in the budget is \$1,600,000 to complete upgrade of the Meditech hospital-wide information system. The total cost of the upgrade is not increasing from the amount reported in FY 2012 budget. However, the timing of when some of the money is spent is shifting from FY 2012 to FY 2013. As previously noted, NVRH expects to receive EMR Incentive Revenue under the American Recovery and Reinvestment Act (ARRA) to offset the cost to upgrade the Meditech system.

For several years, NVRH has planned to construct a medical office building for NVRH owned practices. With a full complement of providers and limited space, several practices are operating inefficiently. For example, some practices offer only 1 exam room per provider. Two exam rooms per provider are the norm in order for the providers to be work efficiently. Also front office and clinical support staff can be shared among providers if they are located in the same building. Construction of the MOB should begin in FY 2013. This project has been listed under the CON section on Schedule 6A as it is possible the cost may exceed \$3 million, necessitating a CON review. NVRH will keep GMCB staff updated as better estimates of the project costs become available.

An additional \$1.6 million has been budgeted to renovate existing buildings. One building houses our Pediatric practice on one level and an outpatient physical therapy practice on another level. The second building currently houses a Cancer Treatment and Kidney Dialysis program. Our current plans including renovating space in that building for the ENT/Audiology service.

FY 2014 – FY 2016 Capital

The one and three year capital budget also includes \$3 million a Biomass energy system. NVRH continues to search for alternative energy sources. Our current plans include construction of a Biomass system. NVRH will keep GMCB staff updated on this project and the project costs.

Compliance with Uniform Reporting Manual:

I believe the above narrative is responsive to the Division's requirements as outlined in the Uniform Reporting Manual for FY 2013.

If I can provide any additional information to support NVRH's operating and capital budget for fiscal 2013, please contact me.

Robert Hersey
Chief Financial Officer

CC: Paul Bengtson, CEO